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IN THE
Supreme Court of the United States

October Term, 1968

No. 56

LEAR, INCORPORATED,

Petitioner,

vs.

JOHN S. ADKINS,

Respondent.

VOLUME I.

**PETITION FOR WRIT OF CERTIORARI TO THE
SUPREME COURT OF CALIFORNIA.**

(Appendix in Volume II.)

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VOLUME I.

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(Appendix in Volume II.)

Lear, Incorporated¹ ("Lear") prays that a writ of certiorari issue to review the judgment of the Supreme Court of the State of California, entered in the above entitled case on December 14, 1967.

OPINIONS BELOW.

The opinion of the Supreme Court of the State of California, In Bank (A, pp. 1-51)² is reported at 67

¹Lear, Incorporated, named as defendant in the complaint filed below on January 5, 1960, was, under a statutory merger, succeeded on June 5, 1962 by The Siegler Corporation and the name of the latter corporation was changed to Lear Siegler, Inc. at that time [C. T. 1126]. "Lear" is used in this petition to refer to Lear, Incorporated and also to its successor, Lear Siegler, Inc.

²References herein are as follows: "A, B, C, or D (page number)" refers to pages of an appendix to this petition, which
(This footnote is continued on the next page)

A.C. 911, 156 U.S.P.Q. 258. A prior opinion had been delivered by the District Court of Appeal of the State of California, Second Appellate District, Division Two (A, pp. 54-91), which is reported at 244 A.C.A. 100, 151 U.S.P.Q. 119; a modification of opinion was subsequently delivered by that court (A, p. 92) which is reported at 244 A.C.A. 563. Prior to the decision of the District Court of Appeal, the Superior Court of the State of California in and for the County of Los Angeles had entered a judgment on verdict in open court (A, pp. 92-93) which is unreported; had entered rulings on motions for judgment notwithstanding the verdict and, in the alternative, for a new trial (A, pp. 94-103) reported at 143 U.S.P.Q. 53; had entered a judgment for defendant notwithstanding the verdict (A, p. 104) which is unreported; and had entered an amendment to judgment (A, p. 105) which is unreported.

JURISDICTION.

The final judgment of the Supreme Court of the State of California, In Bank was dated and entered December 14, 1967 (A, p. 1). A timely petition for rehearing was denied on January 11, 1968 (A, p. 52). The decision of the California Supreme Court became the final judgment of that court on January 15, 1968. The remittitur to the trial court issued on January 15, 1968 (A, p. 52). A stay of the enforcement of the orders and judgment of the California Supreme Court

is separately presented. "C.T. [page number]" refers to pages of the clerk's transcript from the Superior Court of the State of California. "R.T. [page number]" refers to pages of the reporter's transcript from the Superior Court of the State of California. "Ex. [number]" refers to exhibits admitted in evidence by the Superior Court of the State of California.

has been granted pending this Petition (A, p. 53). The jurisdiction of this Court is invoked under 28 U.S.C., Section 1257(3).

QUESTIONS PRESENTED.

1. Whether it is contrary to the purposes and provisions of the federal patent and antitrust laws for a licensee to be estopped from challenging the validity of the licensor's patent, particularly where the licensee has stood out from under the license agreement by notifying the licensor that he refuses to be bound by the agreement, and by asserting failure of consideration because of non-patentability of the invention and invalidity of the patent.

2. Whether it is contrary to the purposes and provisions of the federal patent and antitrust laws for a licensee under an application for patent to be estopped from challenging the patentability of the claims before any patent issues or from challenging the validity of a patent which subsequently issues.

3. Whether it is a misuse of patent rights or an antitrust violation to include in a license agreement, as interpreted by a state court, a provision which extends the monopoly of a patent by conditioning the right of the licensee to terminate the license, either before or after the patent issues, on the cessation of manufacture of the products purportedly covered by the license.

4. Whether it is contrary to the purposes and provisions of the federal patent and antitrust laws for a licensee to be estopped from challenging the validity of the licensor's patent where there is included in the license agreement, as interpreted by a state court, a pro-

vision which, in the absence of a valid patent, is in restraint of trade and unenforceable.

5. Whether it is an unlawful extension of the patent monopoly and contrary to the purposes and provisions of the federal patent and antitrust laws for a state court, in enforcing a patent under a license agreement, to ignore those basic criteria of federal patent law relating to procurement of the patent and to the interpretation of its scope which are required to be applied in the enforcement of the patent.

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED.

The case involves the purposes and provisions of the Constitution of the United States and the federal patent and antitrust laws of the United States. The Constitutional provision is Article I, §8, Clause 8 (B, p. 121). Statutory provisions particularly involved are 35 U.S.C., Sections 101, 102(a), (b), 103, 115, 132, 154, 282 (B, pp. 121-124), 28 U.S.C., Section 1498 (B, pp. 124-125), and 15 U.S.C., Section 1 (B, p. 125).

STATEMENT OF THE CASE.

Rights under the patent laws which are of concern in this litigation were the subject of a license agreement between Lear and Adkins, who was employed by Lear in 1951.

Prior to 1951 Lear had become a major manufacturer of navigation and guidance equipment for aircraft, as well as a major supplier of such equipment for military purposes. Gyroscopes ("gyros") are an essential component of such equipment. Lear's manufacturing activities were carried on in two locations, one in Cali-

fornia, and the other in Michigan, under separate management.

Adkins had been employed for about ten years by the United States Air Force in the procurement of navigation and guidance equipment for the Air Force. In 1951 he left the Air Force and went to work for Lear at its California facility. There he developed the California Model 2156 gyro, and on February 15, 1954 he filed an application for a patent [Ex. 9] which disclosed that gyro.

Development work on another type of gyro was being conducted at Lear's Michigan facility during the time that Adkins was developing the California Model 2156 gyro. These gyros, known collectively as the Michigan³ "steel gyros", were developed independently of Adkins⁴ (A, p. 95; R. T. pp. 550-552, 1710-1711, 2085-2088).

On September 15, 1955, Adkins and Lear entered into a license agreement⁴ (C, p. 126) which superseded a preliminary agreement made at the time of his employment. Both the California Model 2156 gyro and the Michigan steel gyros were being manufactured by Lear at that time. Additional models of the steel gyros were thereafter developed from time to time by Lear in Michigan.

The license agreement, to the extent involved in this litigation, granted Lear an exclusive license under the

³The terms "California" gyro and "Michigan" gyro were used throughout the trial and in the briefs to provide a clear distinction between the two products that are involved [R. T. 252, 2837, 2854].

⁴The 1955 agreement [Ex. 8] is printed in Appendix C, pp. 126-147).

aforesaid patent application under patentable claims that might be obtained by Adkins (C, pp. 129-130, §2(a)). At the date of the license agreement no patent had issued to Adkins.⁵ On the assumption that certain products then being manufactured by Lear were covered by patentable claims in the application for patent, royalties were initially paid on the California Model 2156 gyros and also on some of the Michigan steel gyros.

After operating under the license agreement for approximately two years, Lear for the first time made a search and study of the prior art with reference to the claims in Adkins' patent application. As a result of this search Lear found prior art which, it believed, showed that claims of sufficient scope to cover the steel gyros were not patentable. On September 10, 1957 Lear so notified⁶ Adkins and repudiated any further liability with respect to the Michigan steel gyros; and thereafter paid no further royalties on these gyros. After continuing the payment of royalties on the California Model 2156 gyros, Lear served a notice⁷ of termination of the license agreement on April 8, 1959. Such notice relied upon Paragraph 2(a) (C, pp. 129-130) of the license agreement which states that Lear has the right to terminate the agreement on ninety days' prior written notice, and on Paragraph 6 (C, pp. 138-139) which states that Lear has the right to terminate the agreement in the event the U. S. Patent Office refuses to issue a patent on the substantial claims of the application.

⁵Only Exhibit B to the license agreement is involved here. Exhibit B was Adkins' patent application which was filed on February 15, 1954 [Ex. 9].

⁶Letter of September 10, 1957; Ex. 36 (Appendix C, pp. 148-149).

⁷Letter of April 8, 1959; Ex. 39 (Appendix C, p. 150).

After the notice of termination on April 8, 1959 Lear no longer recognized the agreement as having any effect, claimed no rights under it and made no further royalty payments. Adkins' attorneys notified⁸ Lear that they did not agree with Lear's notice of termination and demanded an accounting, stating that Lear would be held liable under the agreement or otherwise.

Adkins had previously amended his application several times in an endeavor to obtain allowance of claims of various types. On December 22, 1958, Adkins amended the application to add new matter to the specification. At the time of Lear's notice of termination, none of the claims had been found to be patentable. On April 30, 1959, shortly after the notice of termination and without Lear's knowledge, Adkins amended the application again to present a new set of claims [Ex. P, pp. 64-68], and the patent involved here [Ex. 10] issued as to certain of such claims on January 5, 1960.

On the date of issuance of the patent Adkins instituted suit in the Superior Court of California, asserting two causes of action. The first alleged breach of the license agreement and unjust enrichment after termination of the agreement, and the second alleged breach of an implied obligation under California statutory law and misappropriation under the common law [C. T. B-1].

On March 1, 1963 Lear instituted an action in the United States District Court for the Central District of California, No. 63-241, seeking a declaratory judgment of invalidity, unenforceability and non-infringement of Adkins' patent. This action in the federal

⁸Letter of April 20, 1959; Ex. 40 (Appendix C, p. 151).

courts has been stayed on the ground that the same issues are pending in the state court action. *Lear Siegler, Inc. v. Adkins* (9th Cir. 1964), 330 F. 2d 595 (A, pp. 106-120).

During the trial in the state court, the court ruled that Lear by its notice of April 8, 1959 had terminated the agreement, and the court so instructed the jury [C. T. 127, R. T. 239, 3080]. Following a finding by the jury for Adkins as to the California 2156 gyros in the amount of \$16,351 and the Michigan steel gyros in the amount of \$888,122, the Superior Court entered a judgment notwithstanding the verdict in favor of Lear concerning the Michigan steel gyros. The court held that, although Lear had fully terminated the license agreement by its notice of termination of April 8, 1959, it was estopped to deny the validity of the patent with respect to the California Model 2156 gyros. However, it held that the rule of estoppel did not apply with respect to the Michigan steel gyros on the ground that they had been developed independently by Lear.

The court then ruled that the patent which issued to Adkins on January 5, 1960 was invalid, that the Michigan steel gyros did not infringe any claims of the patent, even if valid, and that Lear was not liable for royalties on the Michigan steel gyros under either cause of action. However, the court held that Lear was liable in the amount of \$16,351 for royalties on the California Model 2156 gyros on the unjust enrichment theory of the first cause of action, even after termination of the agreement on April 8, 1959 (A, pp. 94-102).

The Superior Court also granted Lear's motion for a new trial on all issues in the alternative in the event

of a reversal of the judgment notwithstanding the verdict (A, p. 103).

The District Court of Appeal held that Lear was not estopped to contest the validity of the patent which ultimately issued to Adkins on the ground that after termination of a license agreement the parties are freed from any estoppel, and thereafter the licensee may attack the validity of a patent issued to the former licensor. However, the court went on to rule that the validity of the patent was not in issue because Lear's notice of termination effectively terminated the agreement as of April 8, 1959 for all purposes, and that Lear was not obligated to pay royalties on either the California Model 2156 gyros or the Michigan steel gyros after the date of termination (A, pp. 54-91).

Despite the consistent rulings and decisions of the two courts below, the California Supreme Court construed the license agreement to condition Lear's right to terminate under §2(a) only upon cessation of manufacture of the products purportedly covered by the license (A, pp. 23-28), and held that since Lear had not ceased such manufacturing, the agreement was still in effect (A, p. 28). The court also held that Lear was estopped from contesting the validity of Adkins' patent for any purpose (A, p. 16), despite the trial court's holding that the patent was invalid as a matter of law (A, p. 99).

The California Supreme Court construed Adkins' patent to cover the Michigan steel gyros, even though the trial court had ruled to the contrary, and further held there was no substantial evidence showing that the Michigan steel gyros were not covered by Adkins' patent (A, pp. 28-29). That court also refused to accept

Lear's notice of September 10, 1957 as an effective repudiation with respect to the Michigan steel gyros (A, p. 28).

The California Supreme Court also reversed the order of the trial court which had granted a new trial on the factual issues of infringement and on the intent of the parties as to the meaning of the termination provisions of the license agreement (A, p. 51).

The California Supreme Court's decision subjects Lear to a liability of over \$900,000 to May 31, 1963, and, on the basis of the court's holdings, to additional liability to the extent products purportedly covered by the agreement are manufactured by Lear until the expiration of Adkins' patent in 1977, and possibly even longer, under the court's construction of the agreement.

**STATEMENT OF THE MANNER IN WHICH THE
FEDERAL QUESTIONS WERE RAISED—in Com-
pliance With Rule 23(f).**

The Raising of Questions 1 and 2.

Questions One and Two relate to the right of a licensee to challenge the patentability of the claims of the licensor's patent application and the validity of the licensor's subsequently issued patent. Patentability of claims and the validity of a patent are controlled solely by federal law enacted pursuant to the United States Constitution, Article I, §8, Clause 8. The purposes and provisions of the federal patent and antitrust laws override any local rules of estoppel where patentability of an invention or validity of a patent are involved. *Sola Electric Company v. Jefferson Electric Company* (1942), 317 U.S. 173; *Scott Paper Co. v. Marcalus Mfg. Co.* (1945), 326 U.S. 249; *Katzinger v. Chicago*

Metallic Mfg. Co. (1947), 329 U.S. 394; *MacGregor v. Westinghouse Elec. & Mfg. Co.* (1947), 329 U.S. 402.

So far as relevant in this case, the license granted⁹ to Lear was under each of those claims in Adkins' application for a patent [Ex. 9] as "shall be patentable" by Adkins. Adkins represented and warranted that to the best of his knowledge and belief he was the owner of the invention covered by such claims (C, p. 126 §(B)). The complaint alleges full performance of the agreement by Adkins [C. T. B-1], and Lear's answer denies such performance [C. T. B-25].

The issues of federal law concerning estoppel presented by Questions One and Two arose before the Superior Court, and indeed could arise, only after (a) the challenge by Lear of the patentability of Adkins' claims and the validity of his patent, and (b) the subsequent assertion by Adkins that Lear was estopped to make any such challenge. In response to this assertion, Lear in the following instances took the position that it was not so estopped:

A. Before the Superior Court.

1. In reply to Adkins' opposition, on the ground of licensee estoppel [C. T. 349-351], to Lear's motion to file an amended answer asserting unpatentability of the claims of the application and invalidity of Adkins' patent [C. T. 155, 156], Lear asserted that the doctrine of licensee estoppel was inapplicable [C. T. 367-371], and particularly so where an application for patent is in-

⁹Only the portion of §2(a) of the license agreement (C, pp. 129-130) which relates to an exclusive license under Exhibit B to the agreement is involved here, which license became nonexclusive subsequent to Lear's repudiation with respect to its Michigan steel gyros.

volved [R. T. A-448]. The court denied the motion to amend the answer on other grounds [C. T. 481].

2. Adkins refused to answer interrogatories and questions on deposition on the grounds that patentability of the claims of the application and validity were not in issue in the case and that Lear was estopped to raise these questions [C. T. 598-601, 994-996, 1392]. Lear requested the court to require answers on the ground that it was not so estopped [C. T. 1417]. After a ruling that Lear was so estopped [R. T. A-1372]. Lear unsuccessfully sought a writ of mandate from the District Court of Appeal to direct that the Superior Court require such answers on the ground that Lear was not estopped to raise those issues [R. T. A-1495-1496].

3 In its pretrial statement, Lear challenged the patentability of the claims of Adkins' patent application and the validity of his patent [C. T. 1441, § 12], and asserted that it was not estopped to make such challenge [C. T. 1446-7, §28; C. T. 1448, §§34, 35]. Furthermore, prior to trial, Lear moved to file an amended answer asserting failure of consideration based on such non-patentability and invalidity [C. T. 1344]. Lear's motion was denied at that time, but was subsequently allowed during the trial [C. T. 1398].

4. Lear filed trial memoranda citing numerous federal authorities and asserted that because of the public interest in eliminating invalid patents, a licensee is not estopped to show that the alleged invention is in the public domain [C. T. 1644-1645; 2409-2410].

5. After an offer of proof made during the trial, Lear was granted leave by the Superior Court to file

an amended answer asserting failure of consideration with respect to all causes of action in that Adkins' application and the patent which ultimately issued thereon did not disclose a patentable invention [C. T. 1653-Fifth Defense; R. T. 2057, 2317]. Over Adkins' objection [R. T. 1135-1136], the court admitted evidence offered by Lear as to the unpatentability of the claims of Adkins' application for a patent and the invalidity of the patent that ultimately issued on January 5, 1960. However, the court subsequently held, in ruling on jury instructions requested by Lear [R. T. 2838] and on Lear's motion at the end of the trial for judgment notwithstanding the verdict, that such evidence, although relevant on the issue of validity with respect to the Michigan steel gyros (A, pp. 94-95; R. T. 1066) was not relevant as to the California Model 2156 gyros. This latter ruling was based on the ground that Lear was estopped to challenge the validity of the claims of the application or the patent so far as the California Model 2156 gyros were concerned even though the court had ruled that the agreement was terminated (A, p. 94).

6. In its motion for judgment notwithstanding the verdict, Lear specially set up as a defense that the standard of patentability is a Constitutional standard, and that Adkins' patent does not satisfy that standard as defined by this Court [C. T. 1888; 1891; 1898; 1902]. The Superior Court granted the motion with respect to the Michigan steel gyros and the court ruled that Adkins' patent fails to meet the Constitutional standard (A, pp. 98-101).

B. Before the District Court of Appeal and Before the California Supreme Court.

Under California procedure the portion of the judgment appealed must be specified, but no assignment of errors or the like is required or permitted. The errors and issues presented to the appellate court are set forth in the briefs of the parties.¹⁰ When the California Supreme Court grants a petition for hearing with respect to a decision by the District Court of Appeal, the entire record before the District Court of Appeal, including the briefs, becomes the record before the California Supreme Court. New briefs are not ordinarily permitted and were not presented here. The federal questions presented in Questions 1 and 2 were preserved in the appeals, as follows:

1. Lear appealed from the judgment of the Superior Court in favor of Adkins with respect to the California Model 2156 gyros [C. T. 2903], which was based upon the ground that Lear was estopped to contest the patentability or validity of Adkins' claims and patent.

2. With respect to the California Model 2156 gyros, Lear preserved the federal questions that were pertinent under the circumstances of the Court's rulings, by contending as follows:

- (a) that the public is an interested party in patents, and the mere existence of a license agreement does not estop the licensee from contesting validity in view of the public interest involved (D, pp. 168-171);

¹⁰In view of the California procedure, the briefs filed by both parties have been made part of the record certified to this Court. Portions of the briefs relied upon in compliance with Rule 23(f) are set forth in Appendix D.

(b) that licensee estoppel could not survive termination of the license agreement by Lear's notice of April 8, 1959 (D, pp. 160-162, 171);

(c) that licensee estoppel does not apply in any event where there is an application for a patent and the patent issues subsequent to the granting of the license (D, pp. 164-165);

(d) that estoppel to contest patentability or validity does not apply in the case of a defense of failure of consideration with respect to any obligation, either under the agreement or apart from the license agreement, such as unjust enrichment (D, pp. 160, 162, 163);

(e) that any imposition of liability apart from the license agreement, based upon estoppel or otherwise, would in substance result in enforcement of Adkins' invalid patent under guise of state law (D, pp. 152-153, 162, 174, 175);

(f) that even if the license agreement had not been terminated, Lear was not estopped to challenge, and by its notice of April 8, 1959 had challenged, the patentability of the claims of the application and the validity of the patent which ultimately issued, with respect to the California Model 2156 gyros as well as the Michigan steel gyros; having earlier also made this challenge with respect to the Michigan steel gyros by its repudiation of the license by its notice of September 10, 1957 (D, pp. 164, 165); and

(g) that Adkins' application and the patent which ultimately issued fail to meet the standard required by Article I, §8, Clause 8, of the United States Constitution, and the statutory provisions

enacted pursuant thereto, particularly 35 U.S.C., Sections 101, 102 and 103 (D, pp. 155-157, 159, 160, 166-172).

3. Adkins concurrently appealed that court's judgment notwithstanding the verdict in favor of Lear with respect to the Michigan steel gyros [C. T. 2106], which was based upon the ground that Lear was not estopped to contest patentability or validity, and also that Adkins' patent was invalid as a matter of law.

4. With respect to the Michigan steel gyros, Lear preserved the federal questions that were pertinent under the circumstances, by asserting as follows:

(a) that the patentability of the claims of the application and the validity of Adkins' patent were properly before the court concerning matters that occurred both before and after the notice of termination on April 8, 1959 (D, pp. 176, 178-180, 185-187);

(b) that in any event Lear is not estopped to contest the validity of Adkins' patent after the notice of termination on April 8, 1959 (D, p. 24);

(c) that Adkins' patent is invalid under the United States patent laws, and particularly 35 U.S.C. 101, 102, and 103 (D, pp. 181-184); and

(d) that Adkins has no protectible property rights under the Constitutional standard for patentable inventions and also under the United States patent laws, and hence the judgment notwithstanding the verdict should be affirmed (D, pp. 176-178, 183, 184, 187, 188).

5. The District Court of Appeal, in holding that the license agreement had been terminated by Lear's notice of April 8, 1959 and that there was no liability after such termination with respect to either type of gyro, held that none of the claims of Adkins' patent application was patentable " . . . under the standard of Art. I, § 8, ch. 8, of the Constitution and under the conditions prescribed by the laws of the United States," (*Graham v. John Deere Co.*, 383 U.S. 1 . . .)" (A, pp. 67-68). In thus passing on the patentability of these claims, that court accepted and applied Lear's contention that it was not estopped to contest their patentability. As to Adkins' assertion that Lear was estopped to contest the validity of the issued patent (as distinguished from the patentability of the claims), the court held that the validity of the patent was not in issue (A, p. 71).

6. The California Supreme Court held that the patentability or validity of the claims of Adkins' application was immaterial and could not be contested by Lear (A, p. 18), and for the first time held that the agreement had not been terminated because Lear had not ceased manufacturing the products. It then ruled:

"It follows also that the doctrine of licensee estoppel is applicable and Lear is foreclosed from challenging the validity of Adkins' patent." (A, p. 28).

7. Lear again claimed in its petition for rehearing before the California Supreme Court that it was not estopped to contest patentability of the claims of the application or validity of the patent (D, pp. 191-195).

The Raising of Questions 3 and 4.

Although the patent laws give the owner of an issued patent "the right to exclude others from making, using, or selling the invention throughout the United States" (35 U.S.C., Section 154), the applicant under an application for a patent is not given such a right. Hence federal questions are involved in determining whether there is a misuse of patent rights or a violation of the antitrust laws where, as here, under the provisions of a license agreement (as interpreted by a state court), the applicant for a patent requires that, as a condition of exercising a right of termination granted in the agreement, the licensee must cease the manufacture of products purportedly covered by the claims of his application. 15 U.S.C., Section 1. *Brulotte v. Thys Co.* (1964), 379 U.S. 29; *Scott Paper Co. v. Marcalus Mfg. Co.*, *supra*, and *Sola Electric Company v. Jefferson Electric Company*, *supra*.

These federal questions did not arise in the course of the proceedings in the Superior Court because that court had ruled that the agreement was terminated by the notice given on April 8, 1959. The issue was eliminated on May 7, 1963 when, prior to trial, the Superior Court ruled in discovery proceedings that "there is no doubt that Lear had the right to terminate its license agreement" [C. T. 129]. During the trial, Lear attempted to introduce evidence in the form of representations made by Adkins leading up to consummation of the agreement, that Lear's right to terminate on ninety days' written notice would be unconditional. Adkins' objections to the introduction of such evidence and to questions concerning any obligation to cease manufacturing as a condition to termination were sustained by the court [R. T.

1683-1685; 1816-1823]. Hence the Superior Court eliminated this issue from the case despite Adkins' contention that such a condition should be implied. The District Court of Appeal followed the Superior Court's determination that the agreement was terminated by Lear's notice of April 8, 1959.

Thus, the question as to the validity and effect, as a matter of federal law, of a provision which would have required Lear to cease the manufacture of products purportedly covered by the claims of the application for a patent, as a condition to termination, was first introduced by the decision of the California Supreme Court when it construed the agreement to include such a condition.

In its petition for rehearing before the California Supreme Court, Lear presented the question of misuse of patent rights and antitrust violation by extension of the patent monopoly through conditioning the right of a licensee under a patent application to terminate upon cessation of manufacture of products (D, pp. 195-198). In this petition Lear also asserted that licensee estoppel does not apply where the license contains a provision in restraint of trade (D, pp. 189, 190). The petition for rehearing was denied without a hearing.

In view of the fact that the decision of the California Supreme Court provided the first instance in which the license agreement was so interpreted, there had been no prior occasion or need for Lear to urge either (1) that such a provision constituted a misuse of patent rights and an antitrust violation, or (2) that since any such provision was invalid in the absence of a valid patent, Lear, as a matter of federal law, could not be estopped from challenging the patentability of Adkins' claims or the validity of his patent.

The Raising of Question 5.

In enforcing a patent under a license agreement, the same criteria are required to be applied as are applicable in enforcing a patent under the patent law. Such criteria relate to the procurement of the patent and to the application of established standards for interpreting the scope of the patent. These criteria are determined exclusively by federal law. Whether or not a state court follows such basic criteria is a federal question because uniform standards are required in order to achieve the purposes of the patent laws. *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225. The requirements which are primarily involved here are set forth in 35 U.S.C., Sections 101, 102(a), (b), 103, 115, 132, and 282.

In challenging the proceedings involved in the procurement of Adkins' patent, Lear moved on two occasions for leave to file an amended answer, asserting that new matter had been added to Adkins' patent application by amendment in violation of 35 U.S.C., Section 132, and also asserting fraud on the Patent Office in that Adkins filed false oaths under 35 U.S.C., Section 115 stating that the matter added by amendment was part of his original invention [C. T. 149, 1653]. Both motions were denied by the Superior Court [C. T. 481, 1652].

In challenging the scope of Adkins' patent, Lear in its proposed instructions to the jury [R. T. 3299-3325] and in its motion for judgment notwithstanding the

verdict [C. T. 1904-1907] asserted that the basic criteria of the federal patent laws control. In the instructions given to the jury and in granting Lear's motion, the Superior Court employed such basic criteria of the federal patent laws and accordingly construed Adkins' patent to cover only the California Model 2156 gyros and not the Michigan steel gyros [R. T. 2677; 3079-3107; C. T. 1881].

In Lear's briefs before the District Court of Appeal, the impropriety of the proceedings before the Patent Office, in particular, the addition of new matter by amendment and fraud, were set forth as issues with respect to both types of gyros (D, pp. 158, 159, 163, 172, 173, 174, 184, 185, 187, 188). In those briefs Lear also urged that in accordance with the basic criteria of the federal patent law Adkins' patent could not be construed to cover "things" in the public domain, such as the method of assembly which had been claimed, with the claims being rejected and cancelled from the application. In conformity with the criteria known as the "doctrine of file wrapper estoppel," the claims of the patent must be interpreted in accordance with the file history showing the proceedings in the Patent Office; even though the claims of the patent are "new" claims (D, pp. 183, 184).

The District Court of Appeal held not only that the license agreement had been terminated by Lear's notice of April 8, 1959, but that Adkins' invention as claimed was not patentable (A, pp. 70, 73). Accordingly, it was not necessary for that court to consider, nor did it con-

sider, the infirmities that Lear asserted that would render Adkins' subsequently issued patent unenforceable (A, pp. 74, 85).

As noted above, the briefs filed in the District Court of Appeal constituted the briefs filed with the California Supreme Court. Hence the federal issues with respect to improper procurement of Adkins' patent and the scope of Adkins' patent which had been raised by Lear were thereby presented to the California Supreme Court. However, that court deemed it unnecessary to consider the deficiencies in the proceedings before the Patent Office, specifically, holding that the issues of addition by Adkins of new matter to the application by amendment and as to fraud on the Patent Office were not relevant (A, pp. 21, 46).

With reference to the issue of interpretation of the scope of the patent, the California Supreme Court construed the claims broadly enough to cover not only the California Model 2156 gyros, but also the Michigan steel gyros. In doing so, it enlarged the patent monopoly by not employing those basic criteria of the federal patent law which Lear set forth in its briefs.

REASONS FOR GRANTING THE WRIT.

I.

THE NEED FOR REVIEW OF THE ISSUES RELATING TO LICENSEE ESTOPPEL RAISED BY QUESTIONS ONE AND TWO.

The validity of patents is involved in virtually every license agreement. Such agreements affect major segments of the economy, including the procurement of equipment for the armed services, which is involved here.

This Court has stated that it is in the public interest that invalid patents be exposed, *Pope Mfg. Co. v. Gormully* (1892), 144 U.S. 414; that it is the public interest which is dominant in the patent system, *Mercoind Corp. v. Mid-Continent Investment Co.* (1944), 320 U.S. 661; and that the licensee under a patent license is often the party in the best position to promote the public interest by showing invalidity of the licensed patent. *Katzinger v. Chicago Metallic Mfg. Co.*, *supra*.

The Solicitor General of the United States, in similar prior cases, has advocated the complete abolition of licensee estoppel as being against the purposes and provisions of the federal patent and antitrust laws, *Katzinger v. Chicago Metallic Mfg. Co.*, *supra*; *MacGregor v. Westinghouse Elec. & Mfg. Co.*, *supra*.

This Court on many occasions has ruled that the doctrine of licensee estoppel does not apply under the circumstances there presented. *Pope Mfg. Co. v. Gormully*, *supra*; *Sola Electric Company v. Jefferson Electric Company*, *supra*; *Scott Paper Co. v. Marcalus Mfg. Co.* (1945), 326 U.S. 249; *Katzinger v. Chicago Metallic Mfg. Co.*, *supra*; *MacGregor v. Westing-*

house Elec. & Mfg. Co., supra; United States v. United States Gypsum Co. (1947), 333 U.S. 364.

Licensee estoppel has been applied by this Court only in *United States v. Harvey Steel Co.* (1905), 196 U.S. 492, and *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.* (1950), 339 U.S. 827, both of which involved unique circumstances and are not determinative with respect to the broad aspects of licensee estoppel which are presented by Questions One and Two.

In *United States v. Harvey Steel Co., supra*, this Court held that licensee estoppel applies with respect to the user of a patented article under an agreement concerning a secret process, where the agreement held the licensee harmless from claims of infringement of the patent rights pertaining to the process.

In *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., supra*, this Court ruled that licensee estoppel applies where the licensee did not renounce the license agreement and, after being sued, merely pleaded a partial failure of consideration in that ten of about seven hundred patents or applications were alleged to be invalid. Although the majority of the Court were of the opinion that licensee estoppel applied under those unique circumstances, Mr. Justice Douglas, with whom Mr. Justice Black concurred, was of the opinion that a licensee should never be estopped to contest validity. The dissenting opinion states, 339 U.S. 827, 840:

"It is only right and just that the licensee be allowed to challenge the validity of the patents. . . . No other person than the licensee will be interested enough to challenge them. He alone will be apt to see and understand the basis of their illegality.

"The licensee protects the public interest in exposing invalid or expired patents and freeing the public of their toll. He should be allowed that privilege."

A similar view was recently expressed by Mr. Justice White in *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174, where he noted in his concurring opinion at page 200:

"... that public policy favors the exposure of invalid patent monopolies before the courts in order to free the public from their effects. Thus a licensee may not be prevented from attacking the validity of his licensor's patent."

Subsequent to this Court's decision in *Automatic Radio, supra*, this Court resolved some uncertainty as to the law governing the questions of patentability of an invention and validity of a patent by holding that such questions are ultimately questions of federal law. *A. & P. Tea Co. v. Supermarket Corp.* (1960), 340 U.S. 147. This was reiterated in *Graham v. John Deere Co.* (1966), 383 U.S. 1. Since this Court has already ruled that local rules of estoppel will not be permitted to thwart the purposes of the federal statutes and policies, *Sola Electric Company v. Jefferson Electric Company, supra*, licensee estoppel should have no application where a question of federal law, such as validity of a patent, is in issue.

Question One presents the circumstances in which the issue of licensee estoppel is most likely to occur, that is, where the licensee discovers unpatentability and invalidity, renounces the agreement and asserts failure of consideration in that the patent rights are invalid. This

question of licensee estoppel has not been determined by this Court. The lower courts are in confusion on this question. The decision below is in direct conflict with certain decisions of courts in other states and with certain decisions of the federal courts.

The decision of the California Supreme Court in this respect conflicts directly with *Bucky v. Sebo* (2nd Cir. 1953), 208 F. 2d 304; *Holmes, Booth & Haydens v. McGill* (2nd Cir. 1901), 108 Fed. 238; *Mudgett v. Thomas* (Circuit Court Ohio 1893), 5 Fed. 645; and *Brown v. Lapham* (Circuit Court N.Y. 1886) 27 Fed. 77. In the last-mentioned case, the court stated:

"... When he [the licensee] stands out from under the license, and claims nothing from it, and does nothing more under it, with full knowledge to the licensor of his position, he would appear to be at as full liberty to contest the patent as any one."

The decision below also conflicts directly with *Crew v. Flanagan* (Minn. Supreme Court 1954), 65 N.W. 2d 878, 102 U.S.P.Q. 324, where the court held that licensee estoppel does not apply where the license is repudiated for failure of consideration. The court reviewed authorities and stated:

"... But the view now supported by the weight of authority in recent cases is that the licensee may dispute the validity of the patent under which he is licensed after he has repudiated the license, even though such patent has not been shown to be invalid in third-party proceedings."

Authorities contrary to the statement from the *Crew* case include:

Hall Labs, Inc. v. National Aluminate Corp.
(3rd Cir. 1955), 224 F. 2d 303;

Buckingham Products Co. v. McAleer Mfg. Co.
(6th Cir. 1939), 108 F. 2d 192;

*Eastern States Petroleum Co. v. Universal Oil
Co.* (1938), 22 Del. Ch. 333, 2 A. 2d 138, 37
U.S.P.Q. 834.

As to Question Two this Court indicated in 1924 that estoppel to contest claims of an application for a patent may be subject to different considerations than are applicable to issued patents, but the court found it unnecessary to decide this question at that time. *Westinghouse Electric & Manufacturing Company v. Formica Insulation Company* (1924), 266 U.S. 342. That case involved the assignment of an application for a patent. With respect to estoppel of the assignor of the application to contest validity in a suit by the assignee alleging infringement of the subsequently-issued patent, the Court observed;

"... The case before us, however, concerns assignment of an invention and an inchoate right to a patent therefore before the granting of it, which, after the assignment at the instance of the assignee, ripened into a patent. . . . When the assignment is made before patent, the claims are subject to change by curtailment or enlargement by the Patent Office with the acquiescence or at the instant of the assignee, and the extent of the claims to be allowed may ultimately include more than the assignor intended to claim. This difference might justify the view that the range of relevant and competent evidence in fixing the limits of the subsequent estoppel should be more liberal than in the case of an assignment of a granted patent. How this may be, we do not find it necessary to decide."

The reasons expressed by Chief Justice Taft in the opinion in the *Westinghouse* case for not applying estoppel in the case of assignment of a patent application, as to the inchoate rights with respect to the claims of the application, are even more cogent where, as here, the patent was issued only after all of the claims had been rejected and cancelled and new claims were added.

Moreover, estoppel with respect to an assignor of a patent or of a patent application is based upon the ground that one who has represented that he made an invention and has received monetary consideration for the assignment should not be permitted to contest the validity of the rights which were assigned. However, with respect to a license, these considerations apply only to the licensor. The licensee does not ordinarily represent that the patent application discloses an invention, and he receives only a grant of legal rights in the event a patent issues.

There is no reason for any application of licensee estoppel with respect to a license under a patent application. This is particularly true where, as here, the application is altered by amendments after consummation of the license.

Whether or not any estoppel of a licensee under an application for a patent is consistent with the purposes and provisions of the federal patent laws was also questioned in at least two cases subsequent to the decision in the *Westinghouse* case: *Baldwin Rubber Co. v. Paine & Williams Co.* (6th Cir. 1939), 107 F. 2d 350. *Stubnitz-Greene Spring Corporation v. Fort Pitt Bedding Co.* (6th Cir. 1940), 110 F. 2d 192.

The application of estoppel coupled with a license agreement, as construed by the state court, could effectively extend the life of an agreement indefinitely and extend the patent monopoly of the licensor in contravention of the patent and antitrust laws.¹¹

II.

THE NEED FOR REVIEW OF THE ISSUES RELATING TO PATENT MISUSE AND ANTITRUST VIOLATION RAISED BY QUESTIONS THREE AND FOUR.

The issues relating to patent misuse and antitrust violation which are raised by Questions Three and Four stem from the fact that the California Supreme Court erroneously construed the agreement to include a requirement that the licensee must have ceased the manufacture of all products purportedly covered by the claims of the patent application as a condition to termination of the license agreement. By ruling that the contract was to be interpreted to incorporate such a condition, and that such condition was valid, the court was in substance determining that Adkins' application for a patent was tantamount to a valid patent.

The public interest urgently calls for the review by this Court of the issues raised by such a ruling, since, in principle, it contravenes the essential restrictions on patent monopoly required by the decisions of this Court.

¹¹This is especially true where a court construes a license to "cover not only patented or patentable claims disclosed or intended to be disclosed by the application attached as Exhibit B to the agreement but also such claims in other applications filed for different but *related* inventions revealed by the exhibit." (A, p. 18). [Italics added.] Thus the licensee would even be estopped to contest the validity of a patent issuing on an application which wasn't even in existence at the time the agreement was executed.

The decision below implied and approved a contractual requirement that a licensee must cease the manufacture of certain products (a) in order to terminate the license even before any patent issues under a pending application, and (b) in order to terminate the license after a patent issues under the application, regardless of whether the patent is valid or invalid. This decision conflicts in principle with the decisions of this Court in *Brulotte v. Thys* (1964), 379 U.S. 29, and *United States v. Masonite Corporation* (1942), 316 U.S. 265, where the extension of a patent monopoly by agreement was condemned; and *Sears, Roebuck & Co. v. Stiffel Company, supra*, and *Compco Corp. v. Day-Brite Lighting, Inc.* (1964), 376 U.S. 234, where the extension of the patent monopoly under guise of state law was condemned.

The erroneous interpretation given to the termination provision of the agreement by the California Supreme Court results in an extension of the patent monopoly by agreement before the issuance of the patent, which conflicts with the decision of this Court in *Brulotte v. Thys, supra*. That case condemns an extension of the monopoly by agreement beyond the expiration date of the patent. The only difference is that in this case the extension was prior to the beginning of the monopoly and in *Brulotte* it was after the expiration of the monopoly.

Adkins had no vested rights while his application was pending, since "Until the patent is issued there is no property right in it [the invention], that is, no such right as the inventor can enforce." *Marsh v. Nichols, Shepard and Company* (1888), 128 U.S. 605, 612.

Lear served its notice of termination while the application was pending. To require that Lear cease manufacturing products in order to make the termination effective is an agreement in restraint of trade which cannot be justified by the federal patent law. It directly violates 15 U.S.C. section 1.

Furthermore, the application of licensee estoppel and the construction of the agreement to require cessation of manufacture as a condition to termination result in an extension of the patent monopoly under guise of state law and leave the licensee with no remedy.¹² This conflicts with the federal patent policy set forth by this Court in *Sears, Roebuck & Co. v. Stiffel Company*, *supra*, to the effect that a state cannot give a protection of a kind that clashes with the objectives of the federal patent laws.

There is a direct conflict between the decision below and the decisions of this Court in those cases involving agreements having provisions that are in restraint of trade. The only difference between the practices that have been approved by the California Supreme Court and those which have been condemned by this Court is the nature of the restraint. The restraint here is a requirement to cease manufacturing products, and the restraint that has been uniformly condemned by this Court is price fixing. *Sola Electric Company v. Jefferson Electric Company*, *supra*; *MacGregor v. Westinghouse Elec. & Mfg. Co.*, *supra*; *Katzinger v. Chicago Metallic Mfg. Co.*, *supra*; *United States v. Masonite Corporation*, *supra*.

¹²This is particularly true where the trial judge held the patent to be invalid after an extensive trial during which the issued patent and prior art were considered by expert witnesses for both parties.

Both types of restraint are in violation of the law unless they are carried on under the protection of a valid patent. This Court has held that absolute validity is required and not merely presumptive validity in order to prevent such a restraint from being illegal.¹³ The enforcement by the California Supreme Court of a requirement that the licensee must cease manufacture in order to terminate the license or challenge the validity of his licensor's patent conflicts directly with the decision in the Second Circuit in *Nachman Spring-Filled Corporation v. Kay Mfg. Co.* (2nd Cir. 1943), 139 F. 2d 781. The court in the *Nachman* case held that the Sherman Act renders unlawful not merely price fixing agreements but all agreements which in any way unreasonably restrain competition in interstate commerce. The court's opinion in that case stated that if the effect of the agreement would be unreasonably to restrain competition, then only the validity of the patent can rescue the agreement from the jaws of the antitrust laws.

Any restraint in performance of a Government contract is against public policy, as evidenced by 28 U.S.C., section 1498, which provides that claims for patent infringement must be made against the Government in the Court of Claims for damages only, thereby avoiding any legal action which might require a contractor to cease manufacturing essential military equipment.¹⁴

¹³The issuance of a patent gives rise to the presumptive validity under 35 U.S.C., section 282.

¹⁴Sales of the California 2156 gyros and the Michigan steel gyros were primarily to the Government for military equipment (A, p. 95) [R. T. 1950-1979].

III.

THE NEED FOR REVIEW OF THE ISSUES RELATING TO THE IGNORING BY A STATE COURT OF BASIC CRITERIA OF FEDERAL PATENT LAW RAISED BY QUESTION FIVE.

Question Five involves the issue whether a state court, by ignoring basic criteria of federal patent law which relate to the propriety of the Patent Office proceedings and to the application of proper standards for interpreting the scope of a patent, may extend the patent monopoly in contravention of the purposes and provisions of the federal patent and antitrust laws. The effect of such state court action is to enlarge patent rights beyond the limits of federal patent law. Any such enlargement, whether by private agreement or by application of state law, has been condemned by this Court. *United States v. Masonite Corporation*, *supra*; *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1945), 324 U.S. 806; *Scott Paper Co. v. Marcalus Manufacturing Company, Inc.* *supra*; *Brulotte v. Thys Company*, *supra*; *Sears, Roebuck & Co. v. Stiffel Company*, *supra*.

In the Superior Court and in the District Court of Appeal Lear had challenged the propriety of the Patent Office proceedings which led to the issuance of Adkins' patent, alleging that they were defective in various material respects. Among other things, Lear pointed out that new matter had been added by amendment to the application upon which the patent ultimately issued, and that fraud had been practiced on the Patent Office.

The federal patent laws expressly prohibit the introduction of new matter into the disclosure of the invention (35 U.S.C., Section 132). In condemning the

addition of such new matter this Court has pointed out that, in the absence of such a prohibition, an applicant for a patent could enlarge the scope of the patent to cover subsequently developed apparatus. *Muncie Gear Works, Inc. v. Outboard Marine & Mfg. Co., Inc.* (1941), 315 U.S. 759.

In the lower courts Lear had also alleged that fraud had been practiced on the Patent Office by the submission of incorrect oaths under 35 U.S.C., Section 115, in connection with the proceedings concerning Adkins' application [Ex. P, pp. 72, 77]. As to the issue of fraud on the Patent Office, this Court has expressly held that fraud is a defense that is available in an action to enforce a patent. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.* (1965), 382 U.S. 172; *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1944), 324 U.S. 806.

The California Supreme Court, however, refused to consider these or any other challenges by Lear of the Patent Office proceedings. As to the challenge based upon the introduction of new matter, the court construed the language of the license agreement which granted a license with respect to "patented or patentable" claims (A, p. 12) to cover any patent which issued on the basis of Adkins' application. The court acknowledged the rule prohibiting the introduction of new matter by amendment, but in view of its construction of the agreement to encompass "any patent" which issued, it expressly ruled that it need not consider the question whether new matter had been added to the application by amendment (A, p. 21).

Similarly, the California Supreme Court refused to consider any evidence of fraud on the Patent Office on the ground that "... we are not concerned with defenses which might be available to Lear in the determination of validity and infringement." (A, p. 46).

Accordingly, the issue involved in Question Five with respect to whether any court, under the guise of interpreting a license granted under a patent application, may refuse to consider basic defects in the proceedings before the Patent Office goes far beyond any specific controversy. If this issue is not properly resolved, parties to a license agreement, or a court in construing such an agreement, could jeopardize the severe restrictions imposed by the federal patent and antitrust laws on the scope of the patent monopoly.

A further major federal issue is raised in Question Five because of the fact that, although it gave lip-service to some of them, the California Supreme Court did not apply criteria which are fundamental in the enforcement of a patent. The court thereby enlarged the scope of Adkins' patent to encompass "things" within the public domain.

Adkins' patent application describes a method, and many claims directed to method were presented during the proceedings before the Patent Office. These method claims were rejected by the Patent Office and cancelled by Adkins. Nevertheless, the court below relied upon *method* in construing the scope of the *apparatus* claims which ultimately issued (A, pp. 30-31). The state court enlarged the scope of Adkins' patent by relying upon method which was in the public domain. *McClain v. Ortmyer* (1891), 141 U.S. 419.

The trial court held that Adkins' patent could only cover the apparatus of the Michigan steel gyros by reliance on the doctrine of equivalence (A, p. 94), and held that they were not so covered. In construing the apparatus claims of the patent the California Supreme Court misapplied the doctrine of equivalence in holding that the claimed apparatus included all configurations "unless expressly excluded . . ." (A, p. 32). The court also refused to consider the apparatus claims that had been rejected and cancelled from the application merely because "the patent claims at issue had not been previously rejected" (A, p. 33) even though there had been many rejections of earlier claims, amendments and cancellation of those claims in view of the rejections.

In thus refusing to recognize any significance in the file wrapper history of the application, the court below ignored the criteria enunciated by this Court in *Schriber-Schroth Co. v. Cleveland Trust Co.* (1950), 311 U.S. 211; 218, 221 as follows:

"Where the patentee in the course of his application in the patent office has, by amendment, cancelled or surrendered claims, those which are allowed are to be read in the light of those abandoned and an abandoned claim cannot be revived and restored to the patent by reading it by construction into the claims which are allowed . . .

" . . . The patentee may not, by resort to the doctrine of equivalents, give to an allowed claim a scope which it might have had without the amendments, the cancellation of which amounts to a disclaimer."

The court also improperly enlarged the scope of the Adkins' patent by relying upon new matter added to the application by amendment [Ex. P, pp. 59-60] in construing the claims of the patent (A, p. 32) in contravention of provisions of the federal patent laws. 35 U.S.C., Section 132.

The departure by the California Supreme Court from federal criteria which for all purposes—infringement or license—govern the enforcement of a patent is a disturbing demonstration of the far-reaching extent to which the patent monopoly can be vastly and improperly extended by a state court decision. It calls for an enunciation by this Court that such criteria must be respected by all courts, whether federal or state.

CONCLUSION.

Lear is in an unenviable plight. Although the patent has been held to be invalid by the trial court as a matter of law, the California Supreme Court has precluded Lear from any challenge of the patentability or validity of the patent while a licensee and has ^{also} required cessation of manufacture of products purportedly covered by the agreement to terminate the agreement, so that Lear would have no standing in court to make such a challenge after termination. Additionally, Lear's efforts to obtain a determination of the issues of validity, infringement and enforceability in an action in a federal court have been thwarted by that court's stay of the federal action on the ground of the state court's jurisdiction to determine such issues.

At the heart of this case is the extent, if any, to which the state courts should be permitted, under theories of licensee estoppel, to preclude the challenge of patent validity or of the patentability of claims of a

patent application, or should be permitted to interpret and enforce the provisions of license agreements without reference to their impact on the proper limits of the patent monopoly and the purposes of the antitrust laws. Equally significant is the extent to which a state court may ignore criteria which, as enunciated in the patent laws and in the decisions of this Court, are basic in determining the propriety of Patent Office proceedings and the proper scope of the claims of a patent.

We urge that, by the granting of this petition for a writ of certiorari, this Court provide guidance to both the state and federal courts in these important matters.

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